

COUNCIL ON DEVELOPMENT FINANCE

April 24, 2017

PUBLIC HEARING 431

THOSE PRESENT:

Mr. Andrew Lubin, Chairman
Honorable Nancy Cook
Mr. Jack Riddle
Mr. Richard Rowland
Mr. Fred Sears
Honorable Bryon Short

Mr. Cerron Cade, DEDO Acting Director
Ms. Kimberly Cruz
Mrs. Leilani Decena-Shepherd
Mrs. Christina Dirksen
Mrs. Jodie Green
Mr. Lawrence Lewis, DAG
Mr. Tim McLaughlin
Mrs. Amy Reville
Mrs. Jordan Schulties
Mr. Joe Zilcosky

ALSO PRESENT:

Delaware Innovation Space, Inc. ("DISI")

Dennis Assanis, Pres. of University of Delaware
Doug Muzyka, Senior VP & Chief Science and Technology Officer of the DuPont Co.
Bill Provine, Dir. of Science and Engineering of Global Operations of the DuPont Co.; Pres. & CEO of DISI
Charlie Riordan, VP for Research, Innovation and Scholarship of University of Delaware

Coastal Brewing Company, LLC

Randy Slaughter, Controller

Erin Innes, Office of Management and Budget
Art Jenkins, Office of the Controller General

LOCATION:

Buena Vista Conference Center
661 S. DuPont Highway, 1st Floor
New Castle, DE 19720

TIME:

9:02 am

CALL TO ORDER:

The meeting was called to order 9:02 a.m. by Council Chairman Andrew Lubin, on Monday, April 24, 2017.

OLD BUSINESS:

Chairman Lubin asked the Council if there were any recommendations, comments or additions regarding the minutes of the March 27, 2017 Council on Development Finance meeting. Mr. Fred Sears made a motion to approve and Mr. Jack Riddle seconded the motion, which was then adopted by unanimous vote.

NEW BUSINESS:

Delaware Innovation Space (“DISI” or the “Applicant”) – The Applicant is seeking a Delaware Strategic Fund Grant in an amount up to \$5,000,000 over three years in partnership with the University of Delaware and DuPont to support start-up costs associated with the establishment of the Delaware Innovation Space, Inc. (“DISI”) at the Experimental Station in Wilmington, Delaware for the purpose of conducting activities to supplement government economic and job development programs directed at encouraging the initiation, expansion, growth and maturation of start-up, small or expanding businesses with a potential for providing enhanced employment opportunities and contributing to the community revitalization and growth of the State of Delaware.

Mrs. Jordan Schulties, DEDO’s Capital Resources Director, gave a quick overview of the project, as well as the benefits and staff recommendations. She explained that the DISI facility will be located on DuPont’s main research campus, the Experimental Station, in Alapocas.

Representatives from each of the DISI partners presented their respective contributions to the project. Dr. Bill Provine, CEO of DISI, presented the strategic overview of the project. Dr. Doug Muzyka, Senior VP & Chief Science and Technology Officer of the DuPont Co., outlined DuPont’s partnership with DISI. DuPont will donate a modern, world-class building, with labs and office space; equipment; and a cash infusion of \$1.25M. Dr. Dennis Assanis, President of the University of Delaware, addressed the university’s partnership with DISI. The University of Delaware plans to invest \$1.5M in start-up funding for over three years, as well as developing writing and entrepreneurship workshops, providing grants, and incorporating student interns to work closely with innovators, researchers and faculty.

In response to Mr. Riddle’s question about the breakdown of cash and assets, Dr. Assanis explained that UD’s \$1.5M will go to DISI and it will distribute the funds appropriately. Dr. Provine clarified to the Council that DISI is requesting a \$5M state grant over a three year period, while DuPont intends to donate \$1.25M and UD will contribute \$1.5M towards the project. DISI is also seeking \$3M from the EDA and \$1M-\$2M more from additional partners, currently in discussions. Dr. Provine explained that the non-cash component includes the building and equipment.

In response to Mr. Sears’ question about the selection process on the companies DISI intends to support, Dr. Provine responded by saying that there will be a selection board that will advise him on applicants. The board will consider: the strength of the business, its financial worthiness, and its connection with DISI’s strategic antennae.

Charlie Riordan, VP for Research, Innovation and Scholarship of University of Delaware, stressed that there are discussions on how much time to give early-stage companies to build their enterprise. Dr. Provine added that there will be a renewal process, which will be based on the companies’ progress.

Mr. Sears asked for clarification regarding rental income, as presented in the financial exhibit. Dr. Provine explained that in the early phases of the project, they intend to have anchor tenants, which will be commercial companies. This will provide DISI income, while it ramps up its start-up companies.

Chairman Lubin called for a recommendation and a motion for Delaware Innovation Space, Inc.'s request for a Delaware Strategic Fund Grant in an amount up to \$5,000,000 over three years.

Motion Made By: Mr. Fred Sears
Seconded By: Mr. Richard Rowland

Chairman Lubin asked if there were any public comments.

Seetha Coleman Kammula, President of Science, Technology and Research Institute of Delaware (STRIDE), made a presentation concerning the history and purpose of STRIDE, which is a non-profit organization. By a show of hands, she introduced 22 of its 100 members, who attended the meeting. She explained that the non-profit is membership-based and was created by former DuPont employees. She said its mission is to retain, rebuild and grow science and technology in the community. She expressed concerns of expensive laboratory space and limited state funds to support start-up companies like STRIDE. She urged the council to provide information on the state's remaining budget, as well as provide a plan to help Delaware's world-class scientists.

Mr. Bryan Tracy, CEO of Delaware Sustainable Chemistry Alliance (DESCA), shared his support for DISI. He said this project is long overdue. He added that this is a great opportunity for organizations like STRIDE because it is profitable and a project like this will allow them to interact with some of the biggest companies in the world.

Ms. Lori Palmer, Founding Chairperson of the Delaware Sustainable Chemistry Alliance, described the purpose of DESCAs. She said the organization recognizes the need to support sustainable innovation. She explained the importance of helping entrepreneurs in chemistry and materials with business opportunities and ways to accelerate their ideas. She shared the organization's support and encouraged all entities to come together, to leverage the industry's capabilities and to work collaboratively, so Delaware can accelerate innovation and create jobs.

Mr. Garry Figuly, member of STRIDE and owner of a consulting firm, also shared his support of the project. He said there was a lot of discussion about buildings, students and finance, but not enough about placing experts within the framework. He mentioned that STRIDE can provide a strong collaborative atmosphere. He recommended to council that STRIDE members funnel their expertise and experience into the start-ups and new companies.

Ms. Debra Massouda, Former DuPont Chemist and Manager, disagreed with a previous comment made about the Experimental Station as an important center of industrial research. She argued that it was not known for its facilities but for its scientific expertise. She mentioned that people, who are internationally known for their work, were laid off from DuPont and took jobs elsewhere. She does not want to see the community of experienced scientists disappear from Delaware.

MOTION: After duly considering, inter alia, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under

applicable statutory and regulatory provisions, the council made the following findings: (i) the Project will contribute to maintaining or providing gainful employment of the citizens of the State, (ii) the Project will serve a public purpose by contributing to the prosperity, health or general welfare of the State; (iii) the grant will effectuate the purposes of Chapter 50, Subchapter IV of Title 29 of the *Delaware Code*, and (iv) the Applicant is a financially responsible person to the extent required by statute and has not been convicted of a major labor law violation or other illegal conduct involving moral turpitude by any agency or court of the federal government or agency or court of any state in the two-year period immediately prior to the approval of the Applicant's application for assistance, the council shall recommend to Mr. Cerron Cade, Chairperson, The Delaware Economic Development Authority, approval of a Delaware Strategic Fund grant to Delaware Innovation Space, Inc. for an amount up to \$5,000,000 over three years, in partnership with the University of Delaware and DuPont, to support start-up costs associated with the establishment of its facility at the Experimental Station in Wilmington, Delaware, contingent upon the approval remaining in effect and including April 23, 2018.

Approved by vote of 6 to 0.

Coastal Brewing Company, LLC ("Coastal Brewing" or the "Applicant") – The Applicant is requesting a loan modification related to terms of an existing loan in the amount of \$500,000.00. The loan proceeds were used to move the Ashburn, Virginia facility to Dover, Delaware.

DEDO staff presented the project to the Council. Mr. Joe Zilcosky, DEDO's Kent County Business Development Leader, gave the background on the project and highlighted the business case for granting a modification; Mrs. Amy Reville, DEDO's Business Finance Specialist, presented the financial analysis of the company.

Mr. Randy Slaughter, Controller of Coastal Brewing Company, made remarks before the Council. He said the last year-and-a-half has been positive. The company is constantly improving itself. They recently brought in a new packing machine that has saved them money in labor costs. Also, they are in the midst of restaging their brands with better packaging and promoting the soda line, which can be found in Giant Supermarket and other outlets. He added that they have two major events every year: Oktoberfest and R2Hop2, which more than 700 people attended this year. He said they are active with the Delaware Beer, Wine and Spirits Trail.

In response to Mr. Riddle's question of who owns Coastal Brewing, Mr. Slaughter said that John Rodenhouse and Bill Muhlhauser are the two principal owners, while Anheuser-Busch owns a small portion of the company.

In terms of sales, Mr. Slaughter explained that the craft beer market in Delaware has grown over the years. He attributed its sales growth to market expansion. He said the company developed new brands of beer and were introduced and expanding in Virginia, Maryland and Pennsylvania. He added that marketing and a younger sales force helped with the increase in sales. In past years, he said the company spent a lot of money in repairs and maintenance of their equipment. By making an effort to fix their machines right and extending contracts with suppliers, operating costs were significantly less last year.

Chairman Lubin called for a recommendation and a motion for Coastal Brewing Company, LLC's request for a loan modification.

Motion Made By: Mr. Jack Riddle
Seconded By: Honorable Nancy Cook

Chairman Lubin asked if there were any public comments and there were none.

MOTION: After duly considering, inter alia, the nature of the business, its competitive situation in Delaware, its location, the employment and other requirements under applicable statutory and regulatory provisions, the council made the following findings: (i) the Project will contribute to maintaining or providing gainful employment of the citizens of the State, (ii) the Project will serve a public purpose by contributing to the prosperity, health or general welfare of the State; (iii) the grant will effectuate the purposes of Chapter 50, Subchapter IV of Title 29 of the *Delaware Code*, and (iv) the Applicant is a financially responsible person to the extent required by statute and has not been convicted of a major labor law violation or other illegal conduct involving moral turpitude by any agency or court of the federal government or agency or court of any state in the two-year period immediately prior to the approval of the Applicant's application for assistance, the council shall recommend to Mr. Cerron Cade, Chairperson, The Delaware Economic Development Authority, approval of modification of its existing strategic fund loan to include a nine-year term at 4.25% interest, contingent upon the approval remaining in effect through and including April 23, 2018.

Approved by vote of 6 to 0.

ADJOURNMENT

The meeting adjourned at 10:13 a.m.

Respectfully submitted,
Leilani Decena-Shepherd, Portfolio Administrator
LDS

cc: Members of the Council on Development Finance
Cerron Cade, Chairperson, The Delaware Economic Development Authority
Jordan Schulties, Capital Resources Director, Delaware Economic Development Office
Lawrence Lewis, DAG